

February 6, 2009

## **WORKING CAPITAL FUND**

### **FY 2009 First Quarter Report: Summary**

#### I. Relation of Earnings to Expenses

Based on our reviews, the Fund is performing in a manner consistent with past years. Most businesses are expected to break even. Earned revenue for the Fund has totaled slightly under \$31.3 million for the first quarter, on track for an annual level of approximately \$117.5 million (consistent with Continuing Resolution). Business Expense for the same period was \$30.5 million resulting in net income of \$0.8 million. Pursuant to Board approval, the phone and network businesses have been merged into the Telecommunications Business Line.

<b>WORKING CAPITAL FUND</b>			
<b>FY 2009 First Quarter Cumulative Business Results (in Millions)</b>			
<b>TABLE I</b>			
<b><u>Business Line</u></b>	<b>First Quarter Earnings</b>	<b>First Quarter Business Expenses</b>	<b>First Quarter Net</b>
Supplies	\$0.8	\$0.8	\$0.0
Mail	\$0.7	\$0.6	\$0.1
Copying	\$0.8	\$0.5	\$0.3
Printing/Graphics	\$0.7	\$0.3	\$0.4
Building Occupancy	\$20.1	\$19.8	\$0.3
Telecommunications	\$4.1	\$4.5	-\$0.4
Procurement Services	\$0.2	\$0.2	\$0.0
Payroll Processing	\$1.0	\$1.1	-\$0.1
CHRIS	\$0.5	\$0.5	\$0.0
Corp Training Services	\$0.0	\$0.0	\$0.0
PMCDP	\$0.3	\$0.3	\$0.0
STARS	\$1.1	\$1.2	-\$0.1
Financial Controls	\$1.0	\$0.6	\$0.4
<b>TOTAL <sup>1</sup></b>	<b>\$31.3</b>	<b>\$30.5</b>	<b>\$0.8</b>

Each business is expected to achieve a balance between annual ‘earnings’ (billings to customers pursuant to Board-approved pricing policies) and ‘expenses’ (accrued contractual costs adjusted for depreciation, inventory changes, and related business-type costs). Quarterly analyses are intended to identify emerging annual issues that may warrant changes in Board pricing policies.

With few exceptions, the net earnings by business line are consistent with a longer-term

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<sup>1</sup> When converting from whole dollars to tens of millions total amounts do not always add due to rounding.

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breakeven position. For example, prior-year building profits that were due to unfinished projects are being offset as projects are completed, and Telephone capital accumulation is an offset to the equipment write-off that resulted in large losses in FY 2003. Specific differences in excess of \$50,000 are as follows:

- The Mail Business Line experienced net earnings of \$84,509, due to one time contractor savings in the distribution segment.
- The Copy Business Line experienced net earnings of \$288,343, due to extraordinary color copies for the transition documents.
- Printing and Graphics Business Line experienced net earnings of \$454,243, due to the impact of excessive accruals reported in the FY 2008 Annual Report, which accruals were reversed in FY 2009 financials. The cumulative result for both years is breakeven. Because the operating level is nearly break even for the first quarter, we expect this net income to remain throughout FY 2009.
- The Building Occupancy Business Line experienced net earnings of \$356,619, due to reduced operations during the period of the Continuing Resolution.
- The Telecommunications Business earned -\$434,494 net income due to increased infrastructure costs. The Fund Manager's office and the business line manager are reviewing costs to determine whether the Board needs to assign a working group to review the pricing policy for the business.
- The Payroll Business Line experienced net earnings of -\$78,631 due to DFAS billing for payroll services that occurred during FY 2008. This amount is offset by last year's earnings.
- iManage experienced net earning of -\$121,591, due to operating at a higher level of activity than the budget. The business is expected to break even for the year.
- The Financial Reporting Control Assessment Business Line experienced net earning of \$408,189 due to reductions taken last fiscal year. Although it is expected that these savings will continue through this fiscal year, new stimulus legislation may require additional financial control efforts.

Both earnings and expenses reported above have been adjusted from the STARS accounting to present the Fund's financial results with the most accurate and latest information. Specifically, we have adjusted earnings by a net increase of \$5.2 million because certain business lines have revenue segments that, while charged annually, should be reflected as earned in quarterly reports in 25% increments. Telephone results have also been adjusted \$0.6 million to offset the reverse billing for August/September usage billed in October/November. Costs have been adjusted up by \$6.8 million to reflect inadequate accruals to the accounting system and other adjustments.

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## II. Relation of Customer Payments to Anticipated Customer Billings

Obligation authority for Fund businesses is derived from customer advance payments for services. The Board has adopted procedures calling for customers to make full-year advance payments into the Fund once appropriations are available. By December, 2008 we had collected \$47.8 million (including prior year funding) compared to \$36.2 million in FY 2007 and compared to the estimated \$117.5 million in FY 2009 annual revenues based on the constrained operations during the continuing resolution.

Table II is not presented in this report because current collections are not consistent with operations justified in the FY 2009 budget. Once appropriations are made, program funding requirements will increase and we will report collections against annual requirements.

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### III. Relation of Payments to Obligations by Business Line

There have been no violations of administrative control of funds procedures by WCF business lines. As shown in Table III, allocations exceeded obligations by an estimated \$ 20.4 million by the end of the first quarter. This was due largely to delays within the fiscal quarter in acquiring customer funding, and the cautious behavior of the various businesses during the continuing resolution.

The structure of Table III has changed to show the impact of the Board's decision to obligate program funding at the WCF level and to allocate funding to businesses as needed. The Fund Manager's Reserve reflects the prior year unobligated balances and current year customer advances that have not yet been allocated to specific businesses. This Reserve practice allows administrative efficiencies for program billing, maintains a lower reserve requirement for the Fund as a whole, and improves internal controls by managing business equity centrally.

<b>WORKING CAPITAL FUND</b>			
<b>FY 2009 FIRST QUARTER BUSINESS RESULTS</b>			
<b>(IN MILLIONS)</b>			
<b>TABLE III</b>			
<b><u>Business Line</u></b>	<b>Total Allocations</b>	<b>First Quarter Obligations</b>	<b>Advances Remaining to be Obligated</b>
Supplies	\$ 1.2	\$ 0.0	\$ 1.2
Mail	1.2	0.0	1.2
Copying	0.8	0.3	0.5
Printing/Graphics	1.2	0.7	0.5
Building Occupancy	15.7	11.9	3.8
IT Operations	5.0	0.5	4.5
Procurement Services	0.4	0.2	0.2
Payroll Processing	1.3	0.8	0.5
CHRIS	0.6	0.0	0.6
Corp Training Services	0.2	0.1	0.1
PMCDP	0.5	0.0	0.5
STARS	2.5	0.9	1.6
Financial Controls	0.8	0.2	0.6
Fund Mgrs Reserve	16.5	0.0	16.5
<b>TOTAL</b>	<b>\$ 47.8</b>	<b>\$ 15.6</b>	<b>\$ 32.2</b>

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#### IV. Changes in Budget Estimates by Business Line and Customer

The increase from July 2007 to December 2007 resulted from introducing new businesses and new business segments during the corporate review of the FY 2009 budget and transferring full contractual costs related to the A-76 review of administrative services. The WCF Board approved these changes and the Congressional Budget Request sought \$148.4 million. Due to the continuing resolution in effect for the first quarter of FY 2009, Fund businesses are operating at FY 2008 levels.

<b>FY 2009 Budget Estimates for WCF Businesses</b>		
Date	Process	FY 2009 Billing Estimate (\$Millions)
July 2007	FY 2009 Corporate Review	\$117.1
December 2007	FY 2009 Congressional Budget	\$148.4
December 2008	December WCF Bill	\$117.5

#### V. Anticipated Need to Change Pricing Policies or Make Substantial Changes in Operating Levels.

Based on the first quarter reviews with the businesses the Fund Manager does not foresee a requirement to change pricing policies for the current year. However, the PMCDP business has a proposal from its working group to increase revenues by \$0.4 million that it will provide at the next Board meeting. Working groups are considering increase billings for STRIPES and new business proposals to include funding for select interagency agreements this year. Other working groups are considering long term issues related to building occupancy and iManage.

In addition, businesses are reviewing their five-year plans in preparation for the FY 2009 budget process. Businesses will begin briefing the Board on requirements at the February Board meeting.

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## VI. Financial Management Systems Progress

The WCF billing system continues to successfully produce timely and accurate monthly bills. The chart below indicates the billing performance related to transferring customer-billing information to STARS by the second working day of the month. This allows the Fund staff, with the cooperation of EFASC officials, to have the billings entered into STARS each month before the accounts are closed. A minus two (-2) indicates that billing was forwarded two days before the deadline. This standard provides customers with costs reported in STARS in the same month they occur. The time between the end of the month and the issuance of the bill is extremely consistent.

